

**CITY OF BLAINE**  
**Whatcom County, Washington**  
**Special Audit**  
**January 1, 1991 Through December 31, 1992**

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**Schedule Of Findings**

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1. The Public Works Department Should Adhere To Bid Requirements

During our review of the Public Works Department we noted that bid requirements had not been complied with in several instances:

- a. In 1992, a portion of a street oil mat overlay project was contracted to a local contractor, Colacurcio Brothers, in the amount of \$218,373 without obtaining competitive bids.
- b. The city paid the same contractor in excess of \$27,000 for their work on the Post Office Project in 1992 without obtaining competitive bids.
- c. The city entered into several agreements with Golder Associates during 1991 and 1992 for ground water development and exploration. Golder Associates subcontracted at least \$160,000 of the work for well development and drilling, which was not competitively bid.
- d. The city's crews performed work for some projects which should have been contracted, including:
  - (1) Loomis Trail Project in the amount of \$114,743 for an electrical service extension in 1992. These costs were reimbursed by the Loomis Trail developer.
  - (2) Work with costs in excess of \$26,000 on the street oil mat overlay project in 1992.
  - (3) Work with costs in excess of \$25,434 on street lighting for the Post Office Project in 1992.
  - (4) Electrical work with costs in excess of \$59,000 on the Post Office Project in 1991.
  - (5) Work on at least three other electrical-related projects in 1991 which had costs in excess of \$30,000 each.

In addition, we noted the following weaknesses over the bidding procedures:

- a. The city has no established policies or procedures regarding proper bid procedures.

- b. The city has no established policies or procedures regarding conflict of interest of employees in the awarding of and monitoring of contracts.
- c. Numerous city employees are involved in the purchase of and/or contracting for goods and services.
- d. Adequate controls do not appear to be in place for the monitoring of project costs.
- e. Adequate procedures do not appear to be in place for the approval and review of contract change orders.

RCW 35A.40.210 states, in part:

Procedures for any public work or improvement contracts or purchases for code cities shall be governed by the following statutes, as indicated:

(2) For code cities under twenty thousand population; RCW 35.23.352.

RCW 35.23.352 states, in part:

(1) Any second or third class city or any town may construct any public works, as defined in RCW 39.04.010, by contract or day labor without calling for bids therefor whenever the estimated cost of the work or improvement, including cost of materials, supplies and equipment will not exceed the sum of thirty thousand dollars if more than one craft or trade is involved with the public works, or twenty thousand dollars if a single craft or trade is involved with the public works or if the public works project is for street signalization or street lighting . . .

Whenever the cost of the public work or improvement, including materials, supplies and equipment, will exceed these figures, the same shall be done by contract. All such contracts shall be let at public bidding upon posting notice calling for sealed bids upon the work . . . The council or commission of the city or town shall let the contract to the lowest responsible bidder . . . .

RCW 39.30.020 states, in part:

In addition to any other remedies or penalties contained in any law, municipal charter, ordinance, resolution or other enactment, any municipal officer by or through whom or under whose supervision, in whole or in part, any contract is made in wilful and intentional violation of any law, municipal charter, ordinance, resolution or other enactment requiring competitive bidding upon such contract shall be held liable to a civil penalty of not less than three hundred dollars and may be held liable, jointly and severally with any other such municipal officer, for all consequential damages to the municipal corporation. If, as a result of a criminal action, the violation is found to have been intentional, the municipal officer shall immediately forfeit his office. . . .

The violations of the bid requirements appears to have occurred due to lack of concern with complying to bid requirements and the absence of adequate policies and procedures to ensure that requirements have been met. In addition, city's management has indicated that the Loomis Trail Project was undertaken by the city as it was beneficial to establish service in that area and the city benefitted by the construction of a main powerline to the area to service other areas.

Without calling for competitive bids, the city is denying the business community the ability to bid for the contracts and cannot assure the public that they are getting the lowest possible price. Without established policies or procedures or proper controls over contracts, the opportunities for error and/or abuse are increased.

We recommend that the city's management implement bid policies and procedures which comply with legal requirements and ensure that those policies and procedures are complied with.

2. The City Should Avoid Lending Its Credit Or Making Gifts Of Public Funds

During our review of the Public Works Department we noted the following instances of the city extending its credit or making a gift of public funds:

- a. The city had an oral agreement with a private citizen to pick up and dispose of scrap materials. We noted that the city had not been compensated for any scrap during 1992, although a city employee was aware that at least three loads of scrap had been picked up during that period. The city was not aware that payment had not been received for this scrap. The city was unable to determine the value of the scrap, however, we noted that in 1991 the city received payment of \$1,050 for sale of scrap.
- b. The city had an oral agreement with the Washington State Department of Transportation (DOT) in which DOT was provided a key to the Public Works Building to enable fueling of their vehicles. These fuel issues to DOT are not adequately monitored and fuel issue tickets are not adequately accounted for and processed. The Public Works Department failed to forward fuel issue tickets to the finance department between June 1992 and March 1993, resulting in approximately 430 gallons of fuel never having been billed to DOT.
- c. The city constructed a temporary power system within the Loomis Trail Golf Course and charged the corporation developing the course for labor, but failed to require compensation for the poles. There were at least three poles used in this project with a total value of approximately \$1,000. These poles are to be returned to the city when the temporary system is no longer needed. No time has been established for termination of the temporary power system.
- d. Water and sewer charges of \$5,615.40 applicable to Fire Station No. 2 were waived upon authorization of the city council.

The *Constitution of the State of Washington*, Article VIII, Section 7, states, in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm . . . .

The city's failure to establish controls to adequately monitor the use and disposition of city assets and ensure prompt payment for assets results in a direct violation of the state constitution and the loss of revenue to the city.

We recommend that the city establish procedures to ensure that they are properly compensated for assets.

3. The City Should Ensure That One Fund Does Not Provide Benefit To Another Without Proper Compensation

During our audit we noted the following instances where the light and water/sewer divisions provided benefits to other funds without receiving compensation:

- a. In 1990 and 1991, the Light Fund provided resources to enable the construction of an addition to the Public Works Building. The council passed a motion in May 1992 "to approve the segregation of costs and the conditions for repayment" but did not provide a resolution or ordinance requiring repayment. No reimbursements have been made to the Light Fund.
- b. The original Public Works Building was constructed using funds provided by the Light Fund. An interfund loan was established providing for monthly payments to be made to the Light Fund that included interest and principal. These payments have been made through 1992, but the current year's budget for public works does not provide for the continuance of payment by either the Street or Water/Sewer Funds.
- c. Work was performed for the Marine Center by the light and water/sewer divisions and requests were sent to the finance department for reimbursement. Neither division has been reimbursed due to a lack of funds in the Marine Center Fund.
- d. The light division has not been compensated for maintenance performed for the Current Expense Fund during 1992.

RCW 43.09.210 states in part:

... no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

Guidelines of minimal procedures of interfund loans are included in the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the Office of State Auditor pursuant to RCW 43.09.200.

The city failed to require the establishment of interfund loans, provide for terms of the interfund loan, and/or ensure that payment was received. They also failed to require that funds be compensated for work performed on behalf of another fund. This has resulted in funds benefiting at the expense of other funds.

We recommend that the city follow the aforementioned criteria in establishing interfund loans and that the city monitor the repayment of the loans. We further recommend that the city ensure all funds reimburse other funds for work performed on behalf of that fund.

4. The City Should Improve Controls Over Public Works Materials And Supplies Inventory

During our review of the public works materials and supplies inventories we noted the following weaknesses:

- a. There are no written policies or procedures relating to the purchase of, access to, issuance of, and accounting for inventory items.
- b. There is no fixed responsibility for the control of inventory. No one can be held accountable for ensuring that inventory is used for proper purposes and accounted for properly.
- c. There is virtually unlimited access to inventory by Public Works Department's employees. Storerooms are not locked and some inventory items are stored outside the storage compound. There is no accountability over keys accessing the public works shop and inventory storerooms. In addition Washington State Department of Transportation (DOT) employees have access to the Public Works Building. (See Finding 2.)
- d. There are inadequate controls over scrapped materials, i.e. aluminum, wire, etc. (See Finding 2.)
- e. There are inadequate controls over fuel. Fuel deliveries are not verified and the fuel pump is not adequately secured. Fuel usage by DOT is not adequately controlled (see Finding 2). The city also fails to properly monitor the use of the fuel credit cards to ensure that purchases of fuel are placed in city vehicles.
- f. There was no comprehensive physical inventory taken of inventory at year end.
- g. Obsolete inventory items do not appear to be properly identified and removed from inventory.
- h. The current accounting system and procedures do not ensure that supplies and materials are charged at the correct prices to projects and does not provide accurate information with which to determine if loss or theft of inventory has occurred.

RCW 43.09.200 Division of Municipal Corporations - Uniform System of Accounting states in part:

The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom: all sources of public income, and the amounts due and received from each source: all receipts, vouchers, and other documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . . (Emphasis ours.)

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific

internal control structure policies and procedures concerning an entity's ability to record, process, summarize and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

- Transactions are executed in accordance with management's general or specific authorization.
- Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability of assets.
- Access to assets is permitted only in accordance with management's authorization.
- The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

#### **Access to Assets:**

The objectives of safeguarding assets requires that access be limited to authorized personnel. In this context, access to assets includes both direct physical and indirect access through the preparation of processing of documents that authorize the use or disposition of assets. Access to assets is required in the normal operations of a business and, therefore, limiting access to authorized personnel is the maximum feasible constraint. The number and competence of personnel to whom access is authorized should be influenced by the nature of the assets and the related susceptibility to loss through errors and irregularities. Limitation of direct access to assets requires appropriate physical segregation and protective equipment or devices. (Emphasis ours.)

Management has failed to implement basic accounting controls, making it difficult to hold individual employees responsible or accountable for their own activities. As a result, inventory is not adequately safeguarded to discourage theft and other irregularities or to discover those occurrences in a timely manner. In addition, accounting records cannot be relied upon to determine the accurate costs of inventory, costs charged to projects, or to support the preparation of financial statements.

We recommend that the city improve controls over inventory as follows:

- a. Develop comprehensive written policies and procedures relating to purchasing of, access to, issuance of, and accounting for inventory items.
- b. Designate responsibility to a limited number of employees who will be held accountable for the control of the inventory.
- c. Place all inventory items in limited access areas and control access to the public works central compound and inventory storerooms. All locks that allow access to the building and grounds should be changed and keys should

be issued only to those authorized individuals requiring access to those areas. Access to inventory should be allowed only to those employees who have been designated responsibility for the accountability over the inventory. All other individuals should be supervised when in storage areas.

- d. Improve controls over the disposition of scrap. Valuable scrapped materials should be properly secured and accounted for until disposed of. If an outside party continues to be allowed to collect and dispose of the scrap, the city should enter into a written agreement specifying the procedures for collection of and payment for the scrap. Activity should be adequately monitored to ensure that the city is receiving proper payment.
- e. Properly secure access to fuel tanks, supervise all fuel deliveries, and strictly monitor the issuance of fuel and usage of fuel credit cards.
- f. Perform a comprehensive physical inventory of supplies and materials at year end and reconcile to inventory recorded on the books. Investigate any large discrepancies.
- g. Establish procedures to identify obsolete inventory items and dispose of appropriately.
- h. Establish basic inventory accounting procedures to control the issuance, returns and use of inventory, and to ensure the proper pricing of supplies and materials to projects performed.



5. The Public Works Department Should Maintain Adequate Records And Prepare Required Reports

During our review of the City of Blaine Public Works Department, we noted that the Annual Report on Public Works Projects had not been prepared. In addition, we noted that records were not easily obtainable detailing the total to-date costs of each public works project.

RCW 39.04.070 states:

Whenever the state or any municipality shall execute any public work by any means or method other than by contract or small works roster, it shall cause to be kept and preserved a full, true and accurate account and record of the costs of executing such work in accordance with the budgeting, accounting, and reporting system provisions prescribed by law for the state agency or municipality.

RCW 35.23.352 states, in part

(4) After September 1, 1987, each second class city, third class city, and town shall use the form required by RCW 43.09.205 to account and record costs of public works in excess of five thousand dollars that are not let by contract.

RCW 43.09.240 states:

Every public officer and employee shall keep all accounts of his office in the form prescribed and make all reports required by the state auditor. Any public officer or employee who refuses or wilfully neglects to perform such duties shall be subject to removal from office in an appropriate proceeding from the purpose brought by the attorney general or by any prosecuting attorney.

The *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor's Office, requires that Schedule 17, Annual Report On Public Works Projects be prepared itemizing all those projects greater than \$5,000 that are not let by contract.

The city's current accounting system does not easily identify project costs. Costs are accumulated by work order, however, in some cases several work orders are utilized for the same project. The current job cost system does not appear to adequately meet the needs of the department. In addition, it appears that there has been a lack of attention to complying with the above recordkeeping and reporting requirements, in part due to the inadequacies of the system.

The lack of adequate tracking of project costs can result in inadequate monitoring of those projects. In addition, it can result in the failure to comply with legal requirements pertaining to those projects, such as bid requirements. In addition, extra time and effort on the part of the State Auditor's Office is required to identify the projects and applicable costs during review of city-performed projects.

We recommend that the city take action to incorporate a job cost system which will adequately track project costs, utilize that system in tracking the costs of projects, and prepare required reports.



6. The City Should Improve Its Accounting For Fixed Assets

As noted in prior audit reports, the city's controls over fixed assets are inadequate. We noted that the city does not maintain a comprehensive fixed asset detail ledger or take a comprehensive annual physical inventory.

Because of the absence of adequate accounting procedures and controls, the city is not properly safeguarding its fixed assets. Furthermore, the city does not have adequate information to:

- a. Fix responsibility for custody of its assets.
- b. Provide adequate insurance coverage.
- c. Determine proper depreciation expense.
- d. Plan an effective replacement and maintenance program.

The Light Utility Fund uses the Federal Energy Regulatory Commission's (FERC) *Uniform System of Accounts for Public Utilities and Licensees*, and the Water/Sewer Fund uses the National Association of Regulatory Utility Commissioner's (NARUC) *Uniform System of Accounts for Class A and B Water Utilities*, both prescribed by the State Auditor in accordance with RCW 43.09.200. General instruction No. 2(a) in both the prescribed systems of accounts states that:

Each utility shall keep its book of accounts, and all other books, records, and memoranda which support the entries in such book of accounts as to any item included in any account.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

In previous years city officials were reluctant to allocate the financial resources necessary to establish an adequate system of accounting for its fixed assets. In 1990, the city contracted with an appraisal company to inventory and appraise the utility funds' fixed assets. To date, the data obtained from the appraisal has not been utilized to update the fixed asset records.

Because the city does not account for its fixed assets, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner.

We again recommend that city officials continue their efforts to establish a fixed asset accounting system and conduct annual physical inventories of fixed assets.

7. The City Public Works Department's Work Order System Needs To Be Strengthened And Implemented Department Wide

During our review of the city's work order system we noted that the water/sewer and street divisions are using a manual system and the light division is utilizing a computer system. We noted the following weaknesses in those systems:

- a. There are no written policies or procedures relating to work orders.
- b. The current computerized work order system does not interface with the current accounting software.
- c. Procedures are inadequate to ensure that all materials used on a project are charged on the work order.
- d. Procedures are inadequate to ensure that materials used on a project are charged at the appropriate price.
- e. Work orders are often not processed timely.

RCW 39.04.070 Public Contracts and Indebtedness - Account and Record of Cost states:

Whenever the state or any municipality shall execute any public work by any means or method other than by contract or small works roster, it shall cause to be kept and preserved a full, true and accurate account and record of the costs of executing such work in accordance with the budgeting, accounting, and reporting system provisions prescribed by law for the state agency. . . . (Emphasis ours.)

Management has failed to implement basic accounting systems to provide accurate and timely accounting for work performed. As a result, the city cannot ensure that accurate costs are being charged to projects, that excess costs have not been charged to a project, or that all costs are included prior to closure of the project. In addition, records cannot be relied upon to determine the accurate costs of projects or support the preparation of financial statements. The city has recently purchased a comprehensive accounting software system which, if properly utilized, should alleviate many of these problems.

We recommend that the city implement an adequate work order control system.

8. The City Of Blaine Should Develop Policies And Procedures

During our audit of the Public Works Department of the City of Blaine we noted the absence of written policies and procedures for nearly every aspect of the operations which we reviewed, including:

- Purchasing
- Competitive bidding
- Awarding of contracts
- Conflict of interest
- Monitoring of contracts
- Inventory
- Job costing
- Overtime and compensatory time

The concept of internal control as defined in the *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 1, pages 15 and 22, based upon criteria established by the U.S. General Accounting Office, states:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The ultimate responsibility for good internal controls rests with management. . .

. . . Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination. . .

Internal control documentation includes written policies, organization charts, procedural write-ups, flowcharts, decision tables, completed questionnaires, software, and related written materials used to describe the internal control methods and measures, to communicate responsibilities and authority for operating such methods and measures, and to serve as a reference for persons reviewing the internal controls and their functioning.

Documentation of internal control systems should include identification of the cycles and related objectives and techniques, and should appear in management directives, administrative policy, and accounting manuals. Documentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transaction or event and related information from its origin through the period it is in process to its final disposition.

Complying with this standard requires that the documentation of internal control systems and transactions and other significant events be purposeful and useful to managers in controlling their operations and to auditors or others involved in analyzing operations.

The absence of written policies and procedures results in the lack of guidance to employees in the performance of their duties, thereby limiting the efficiency and effectiveness of their performance. The orderly flow of information, the accurate and timely processing of transactions, and the timely detection of losses, errors, and irregularities cannot be assured. In addition, proper safeguarding of assets and accurate financial reporting cannot be ensured without formal policies and procedures in place. We also noted that the lack of written policies and procedures contributed to the fact that the city did not comply with certain regulations and requirements, as described in the previous findings contained in this report.

City officials have not devoted sufficient effort or resources to developing and maintaining a comprehensive, reliable system of accounting and administrative control procedures, despite the fact that we informed them of the necessity for such procedures during prior audits of the City of Blaine. Due to the apparent lack of priority which has been placed on the development of policies and procedures and the time and effort required to do so, there has been little progress in developing the policies and procedures which are needed.

We recommend that the city place a high priority on developing the policies and procedures necessary to ensure effective internal control systems, accurate and timely processing of transactions, and adherence to applicable laws and regulations.